

Cryptocurrencies

# Tether Used to Manipulate Price of Bitcoin During 2017 Peak: New Study

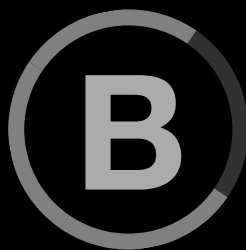
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- ▶ Study examines Bitcoin's run to almost \$20,000 last year
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## Bitcoin: What's Coming in the Year Ahead



### Bitcoin: What's Coming in the Year Ahead

Tether, one of the most-traded cryptocurrencies, shows a pattern of being spent on Bitcoin at pivotal moments, helping to drive the world's first digital asset to a record price in December, according to research by a University of Texas professor known for flagging suspicious activity in the VIX benchmark.

"Tether seems to be used both to stabilize and manipulate Bitcoin prices," finance professor John Griffin and co-author Amin Shams wrote in a paper released Wednesday.

Questions about Tether and Bitfinex have dogged the cryptocurrency world since last year, when Bitfinex lost banking relationships yet continued to operate. The U.S. Commodity Futures

Trading Commission subpoenaed both firms in December, seeking proof that Tether is backed by a reserve of U.S. dollars, as it claims. Tether and Bitfinex haven't been accused of wrongdoing.

"Bitfinex nor Tether is, or has ever, engaged in any sort of market or price manipulation," Bitfinex Chief Executive Officer JL van der Velde said in an emailed statement. "Tether issuances cannot be used to prop up the price of Bitcoin or any other coin/token on Bitfinex."

Read more: Bitfinex said to find Caribbean bank after Wells Fargo exit

Griffin and Shams -- in a paper titled "Is Bitcoin Really Un-Tethered?" -- set out to understand how the 2.5 billion Tether coins in existence have flowed through markets. While little public information exists about how Tether is created, it generally trades for around \$1 because each coin is supposed to be backed by \$1 of fiat money in a bank. The currency, which started trading in 2015, is pitched as a stable alternative to Bitcoin's volatility, acting as a haven for crypto investors.

The data analyzed by the academics includes Bitcoin's meteoric rise to a record high of almost \$20,000 last December, before it crashed this year. It fell 1.4 percent Wednesday to \$6,441.17, according to price data compiled by Bloomberg.

The analysis showed a pattern of Bitcoin price support, Griffin said. First, Tethers are created by the parent company Tether Ltd., often in large chunks such as 200 million. Almost all new coins then move to Bitfinex, he said. When Bitcoin prices drop soon after the issuance, Tethers at Bitfinex and other exchanges are used to buy Bitcoin "in a coordinated way that drives the price," Griffin said in an interview.

"I've looked at a lot of markets," he said. "If there's fraud or manipulation in a market it can leave tracks in the data. The tracks in the data here are very consistent with a manipulation hypothesis."

Griffin's paper describes several patterns uncovered in a yearlong period. First it found that flows weren't symmetric. When Bitcoin's price fell, purchases with Tether tended to increase, helping to reverse the decline. But during times when Bitcoin rose, Griffin said he didn't see the reverse occur. That's "suggestive of Tether being used to protect Bitcoin prices during downturns," he wrote.

## Price Thresholds

He zeroed in on 87 of the largest purchases of Bitcoin with Tether from March 2017 to March 2018. In the cases examined, new Tether had been issued within the prior three days, and Bitcoin's price had fallen in the prior hour. What followed were increases in Bitcoin's price -- and those gains added up.

Even though the 87 examples account for less than 1 percent of the time period examined, they amounted to about 50 percent of Bitcoin's compounded return over that year. In comparison, 10,000 simulations Griffin and Shams ran demonstrated "that this behavior never occurs randomly," they wrote.

Griffin said one of the most notable trends he saw in the data was when Bitcoin traded near certain price thresholds, denominated in \$500 increments.

Bitcoin purchases with Tether "strongly increase just below multiples of 500. This pattern is only present in periods following printing of Tether and not observed by other exchanges," he wrote in the paper. To other investors, it gives the impression of a "price floor," providing a signal for them to buy as well.

"If it was random behavior you wouldn't see it cluster around the thresholds," he said in the interview. "It indicates it's a conscious strategy to provide price support."

## VIX Study

Tether and Bitfinex share a management team, including van der Velde. Little is known about how the businesses cooperate or stay separate. Griffin said his research found "barely any flows moving back to the initial Tether printing node."

His observations come as the global cryptocurrency market faces mounting scrutiny from U.S. authorities.

The Justice Department is said to be conducting a criminal probe into whether traders are using a variety of techniques to manipulate Bitcoin and other digital assets. One of the lead enforcers at the Securities and Exchange Commission told members of Congress last month that initial coin offerings, or ICOs, are now among the "greatest threats" to mom-and-pop investors and that the agency has dozens of active investigations. ICOs are a new form of raising money where startups sell digital tokens to investors much like a company sells shares to investors.

[Read more about the University of Texas VIX research](https://www.bloomberg.com/news/articles/2018-06-13/professor-who-rang-vix-alarm-says-tether-used-to-boost-bitcoin)

Griffin has pointed to alleged funny business in financial markets before. Last month, Bloomberg reported that the SEC and CFTC opened investigations into allegations that Cboe Global Markets Inc.'s widely used VIX benchmark is being manipulated, people familiar with the matter said at the time. Griffin's 2017 paper, written with a grad student, caught traders' attention for spotlighting potential manipulation of the VIX. The Cboe has called his conclusions incorrect.

His latest research topic has similar wide-ranging implications, he said.

"The hype in cryptocurrency isn't just 20-year-olds buying Bitcoin in their garage -- that's part of it -- but there are big players moving the market and having a huge price impact," Griffin said.

– *With assistance by Will Mathis*

*(Updates with comment from Bitfinex CEO in fourth paragraph, Bitcoin price in sixth paragraph.)*

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